

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

NORTH OAKLAND COUNTY
FIRE AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NORTH OAKLAND COUNTY FIRE AUTHORITY

AUTHORITY BOARD MEMBERS

Dale Smith
Chester Koop
Alison Kalcec
Ina Golden
Edward O'Connor

OTHER AUTHORITY BOARD MEMBERS (non-voting)

Jeremy Lintz - Fire Chief

ATTORNEY

Lyndon J. Lattie

AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

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October 6, 2005

Board of Trustees
North Oakland County Fire Authority
P.O. Box 129
Holly, Michigan 48442

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the North Oakland County Fire Authority as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities of the North Oakland County Fire Authority, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 6 - 9 and pages 28 and 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Oakland County Fire Authority's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, such as the combining statements and individual fund statements, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis June 30, 2005

Within this section of the North Oakland County Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2005. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

Fund Financial Statements

A fund is an accountable unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has one kind of fund, governmental fund. *Governmental funds* are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Financial Analysis of the Authority as a Whole

The Authority has implemented the new financial reporting model used in this report beginning with the prior fiscal year ended June 30, 2004. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Authority as a whole.

The Authority's net assets at the end of the fiscal year were \$1,233,277. The prior year ending June 30, 2004 had several prior period adjustments made to net assets as explained in the notes to the financial statements.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	Governmental Activities
	<u>06/30/2005</u>
Current and other assets	\$ 469,456
Capital assets	998,278
Total assets	<u>1,467,734</u>
Accounts payable	9,845
Accrued expenses	26,212
Capital leases payable	198,400
Total liabilities	<u>234,457</u>
Net assets:	
Invested in capital assets	799,878
Unrestricted	433,399
Total net assets	<u><u>\$ 1,233,277</u></u>

Summary of Changes in Net Assets

	Governmental Activities
	<u>06/30/2005</u>
Revenues:	
Program revenues	
Charges for services	\$ 85,232
Operating grants and contributions	614,842
General revenues	
Interest income	9,751
Other	9,733
Total revenues	<u>719,558</u>
Expenses for fire protection	<u>721,960</u>
Increase in net assets	(2,402)
Beginning net assets	<u>1,235,679</u>
Ending net assets	<u><u>\$ 1,233,277</u></u>

Changes in Financial Status and Analysis of Authority's Fund

Under GASB 34, net assets had a small decrease of (\$2,402) compared to the prior year's restated net assets. Depreciation expense amounted to \$70,785. Thus, overall the Authority broke even for the year.

Under fund accounting the Authority's fund balance (General and Capital Replacement Funds) decreased \$314,867. This was due to over \$580,000 of capital assets purchased during the year. The offset to the capital asset purchases was proceeds from a capital lease of \$198,400.

Budgetary Highlights

The Authority's budget which was originally adopted for the general fund was amended by decreasing revenues and expenditures by the same amount of \$54,305. Typically, the Authority budgets revenues and expenditures at the same amount for the general fund. The reason for the budget amendment was because the Board believed a truck would be sold during the year. However, the truck was sold prior to the start of the year, July 1, 2004. Since the Authority decreased the revenue budget it also decreased the expenditure budget in various line items so that expenditures would equal revenues. Actual expenditures were under budgeted expenditures by \$59,202 in the general fund for the year.

The Authority did not adopt a budget for the capital replacement fund.

Capital Asset and Debt Administration

As presented in the notes, capital purchases of \$581,650 were made during the year. Included in the purchases is a 2005 Crimson Pumper at a cost of \$366,532. A capital lease was used to finance \$198,400 of this cost.

Economic Conditions and Future Activities

Future operations will be funded primarily by taxes and special assessments. Rose Township levies a separate fire millage at 1.5 mills and Holly Township levies a fire assessment at 1.65 mills of real property only. Each township collects its related taxes and assessments and makes contributions to the Authority as budgeted.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the North Oakland County Fire Authority at P. O. Box 129, Holly, MI 48442.

BASIC
FINANCIAL
STATEMENTS

GOVERNMENT - WIDE
FINANCIAL STATEMENTS

NORTH OAKLAND COUNTY FIRE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government - Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 450,536
Accounts receivable	18,920
Prepaid expenses	
Capital assets	
Machinery and equipment	\$ 67,551
Vehicles	1,398,127
Leasehold improvements	195,567
Less accumulated depreciation	<u>(662,967)</u>
Net capital assets	<u>998,278</u>
Total assets	<u>1,467,734</u>
<u>LIABILITIES</u>	
Accounts payable	9,845
Accrued wages	26,212
Capital leases payable	
Current portion	50,284
Non-current portion	<u>148,116</u>
Total liabilities	<u>234,457</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	799,878
Unrestricted	<u>433,399</u>
Total net assets	<u><u>\$ 1,233,277</u></u>

The notes are an integral part of the financial statements.

NORTH OAKLAND COUNTY FIRE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net Governmental Activities</u>
Governmental activities:				
Fire protection	<u>\$ (721,960)</u>	<u>\$ 85,232</u>	<u>\$ 614,842</u>	<u>\$ (21,886)</u>
		General Revenues:		
		Interest income		9,751
		Other income		<u>9,733</u>
		Total general revenues		<u>19,484</u>
		Change in net assets		(2,402)
		Net assets at beginning of year		1,712,226
		Prior period adjustments		<u>(476,547)</u>
		Net assets at end of year		<u>\$ 1,233,277</u>

The notes are an integral part of the financial statements.

FUND
FINANCIAL
STATEMENTS

NORTH OAKLAND COUNTY FIRE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>Major Funds</u>		
	<u>General</u>	<u>Capital Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
ASSETS			
Cash and cash equivalents	\$ 278,545	\$ 171,991	\$ 450,536
Accounts receivable	18,920		18,920
Due from other funds	<u>42,609</u>		<u>42,609</u>
Total assets	<u>\$ 340,074</u>	<u>\$ 171,991</u>	<u>\$ 512,065</u>
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts payable	\$ 9,845	\$	\$ 9,845
Accrued wages	26,212		26,212
Due to other funds	<u></u>	<u>42,609</u>	<u>42,609</u>
Total liabilities	<u>36,057</u>	<u>42,609</u>	<u>78,666</u>
FUND BALANCES			
Unreserved	304,017		304,017
Designated	<u></u>	<u>129,382</u>	<u>129,382</u>
Total fund balances	<u>304,017</u>	<u>129,382</u>	<u>433,399</u>
Total liabilities and fund balances	<u>\$ 340,074</u>	<u>\$ 171,991</u>	<u>\$ 512,065</u>

The notes are an integral part of the financial statements.

NORTH OAKLAND COUNTY FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
JUNE 30 2005

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Total fund balance per balance sheet	\$ 433,399
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	
Historical cost	\$ 1,661,245
Depreciation	<u>(662,967)</u>
Capital assets net of depreciation	998,278
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include:	
Capital leases payable	<u>(198,400)</u>
Net assets of governmental activities	<u>\$ 1,233,277</u>

The notes are an integral part of the financial statements.

NORTH OAKLAND COUNTY FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Major Funds		
	General	Capital Replacement Fund	Total
REVENUES			
Township contributions	\$ 614,842	\$	\$ 614,842
Charges for services	85,232		85,232
Interest	3,444	6,307	9,751
Miscellaneous	<u>9,733</u>		<u>9,733</u>
Total revenues	<u>713,251</u>	<u>6,307</u>	<u>719,558</u>
EXPENDITURES			
Personnel	351,661		351,661
Capital outlay	47,727	568,738	616,465
Other fire protection expenditures	<u>264,699</u>		<u>264,699</u>
Total expenditures	<u>664,087</u>	<u>568,738</u>	<u>1,232,825</u>
Excess of revenues over (under) expenditures	<u>49,164</u>	<u>(562,431)</u>	<u>(513,267)</u>
OTHER FINANCING SOURCES (USES)			
Lease proceeds		198,400	198,400
Transfers in		37,684	37,684
Transfers (out)	<u>(37,684)</u>		<u>(37,684)</u>
Total other financing sources (uses)	<u>(37,684)</u>	<u>236,084</u>	<u>198,400</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	11,480	(326,347)	(314,867)
FUND BALANCE, JULY 1, 2004	305,610	455,729	761,339
PRIOR PERIOD ADJUSTMENT	<u>(13,073)</u>		<u>(13,073)</u>
FUND BALANCE, JUNE 30, 2005	<u>\$ 304,017</u>	<u>\$ 129,382</u>	<u>\$ 433,399</u>

The notes are an integral part of the financial statements.

NORTH OAKLAND COUNTY FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - governmental funds	\$ (314,867)
--------------------------------------------------	--------------

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their useful lives as depreciation expense. The amount by which capital outlays exceeded depreciation is as follows:

Capital outlay	\$ 581,650
Depreciation expense	<u>(70,785)</u>

Total	510,865
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Proceeds from long-term debt provide current financial resources to governmental funds, but the issuing of debt increase long-term liabilities in the Statement of Activities

Proceeds from capital leases	<u>(198,400)</u>
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Change in net assets of governmental activities	<u><u>\$ (2,402)</u></u>
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The notes are an integral part of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The North Oakland County Fire Authority was organized under Public Act No. 57, of the Public Acts of 1988, as amended in December of 2001. The Authority approved a fiscal year-end date of June 30. The purpose of the Authority is to provide fire protection and other emergency health and safety services. The governing board of the Authority is made up of five board members. Four of those board members come from the following incorporating municipalities:

- Rose Township
- Holly Township

The fifth board member is a citizen at large agreed upon by both incorporating municipalities.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Reserve Equipment Fund accounts for the activity associated with the acquisition of capital assets. This fund is supported by the General Fund transfers.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

3. Disbursement for the purchase of capital assets providing future benefits are considered expenditures. Any bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America is formally adopted for the General and Capital Reserve Funds. The budget can be amended by approval from the Authority's Board and the member municipalities. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at the fiscal year end. The Authority's actual expenditures exceeded appropriations for insurance.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

H. ACCRUED COMPENSATED ABSENCES

The Authority has not recorded a liability for compensated absences of the fire department. The policies regarding compensated absences are outlined in the Authority's "Rules of Employment".

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance at 7-1-04	Prior Period Adjustments	Revised Balances 7-1-04	Additions	Deletions	Balance at 6-30-05
Land	\$ 115,000	\$ (115,000)	\$	\$	\$	\$
Buildings	785,530	(785,530)				
Equipment	48,000		48,000	19,551		67,551
Vehicles	991,595	40,000	1,031,595	366,532		1,398,127
Leasehold improvements				195,567		195,567
Total cost	1,940,125	(860,530)	1,079,595	581,650		1,661,245
Accumulated depreciation	(989,238)	397,056	(592,182)	(70,785)		(662,967)
Capital assets, net	<u>\$ 950,887</u>	<u>\$ (463,474)</u>	<u>\$ 487,413</u>	<u>\$ 510,865</u>	<u>\$</u>	<u>\$ 998,278</u>

Depreciation expense is being recorded solely for fire protection services. The Authority utilizes the straight line method to depreciate capital assets over their estimated useful lives.

- Prior Period Adjustments - It was discovered the prior year financial statements did not include a vehicle donated to the Authority in 1999 at an estimated value of \$40,000. The net book value as of July 1, 2004 was \$22,664 which was also the amount of the prior period adjustment.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 - CAPITAL ASSETS - (continued)

- It was also discovered that the land and buildings (3 stations) should not have been capitalized. These assets are titled in the names of the member municipalities (Rose and Holly townships). If the municipalities terminate their memberships in the Authority, the land and buildings remain in the municipalities' possession. The cost of the land and buildings capitalized was \$900,530 and accumulated depreciation on the buildings was \$414,392 as of June 30, 2004. Thus, the net book value and prior period adjustment was \$486,138.

Additions - During the year the Authority purchased the following capital assets:

	<u>Cost</u>
Radio equipment tower	\$ 12,912
Hose for 2005 Crimson Pumper	6,639
2005 Crimson Pumper	366,532
Station #3 addition	<u>195,567</u>
Total	<u>\$ 581,650</u>

There was \$198,400 of capital lease debt associated with these assets.

NOTE 3 - CAPITAL LEASE PAYABLE

The Authority has entered into a capital lease with The State Bank to finance the purchase of a 2005 Crimson Pumper. The lease calls for annual payments of \$52,524 with an interest rate of 3.35%. The lease expires during the year ended June 30, 2009.

	<u>Balance at 7-1-04</u>	<u>Lease Proceeds</u>	<u>Principle Paid</u>	<u>Balance at 6-30-05</u>
Capital lease payable The State Bank	<u>\$</u>	<u>\$ 198,400</u>	<u>\$</u>	<u>\$ 198,400</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3 - CAPITAL LEASE PAYABLE - (continued)

The following is a schedule of principle and interest payments to service the capital lease obligations of the Authority:

	<u>Capital Lease Payable</u>	
	<u>Principle</u>	<u>Interest</u>
2005-2006	\$ 50,284	2,240
2006-2007	47,562	4,962
2007-2008	49,155	3,369
2008-2009	<u>51,399</u>	<u>1,722</u>
Total	<u>\$ 198,400</u>	<u>\$ 12,293</u>

NOTE 4 - LEASE AGREEMENTS - (BUILDINGS)

The Authority operates its fire protection services out of three fire stations owned by the member townships. Rent is not charged to operate its services from these stations, but the Authority is responsible for maintaining the premises. Insurance coverage is held by the respective townships. The Authority does not expect this arrangement to be altered within the next fiscal year.

NOTE 5 - EMPLOYEE RETIREMENT PLAN

The Authority's fire chief participates in the Township of Holly's defined contribution plan. This is a single-employer plan with the fire chief being the only class of employee allowed to participate. The Authority is required to contribute 10% of the employee's gross salaried wages. Contribution information is as follows:

TOTAL CURRENT YEAR EMPLOYER CONTRIBUTIONS \$ 2.167

This balance reflect contributions for the period from February 1, 2005 to June 30, 2005.

NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority. The Authority maintains an imprest petty cash balance of \$100.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS - (continued)

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>350,436</u>	<u>367,453</u>
	<u>\$ 450,436</u>	<u>\$ 467,453</u>

NOTE 7 - DESIGNATED FUND BALANCE

As of June 30, 2005 there was a total of \$129,382 of fund balance that was designated for future capital improvements. This designated fund balance is recorded in the Capital Replacement Fund and has accumulated due to transfers made from the Authority's General Fund.

NOTE 8 - PRIOR PERIOD ADJUSTMENTS

The Authority made several prior period adjustments during the fiscal year ended June 30, 2005. These adjustments were recorded in both the governmental fund statements and the government-wide statements as follows:

FUND FINANCIAL STATEMENT ADJUSTMENTS

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 1. Accounts payable was not recorded in previous fiscal periods.
The amount omitted from accounts payable at June 30, 2004: | \$ (18,048) |
| 2. Accounts receivable for cost recovery was not recorded in previous fiscal periods. The amount omitted from accounts receivable at June 30, 2004: | 33,203 |
| 3. Wages were not accrued in the prior fiscal period. Total accrued wages for June 30, 2004: | <u>(28,228)</u> |
| Total fund financial statement prior period adjustments | (13,073) |

GOVERNMENT - WIDE FINANCIAL STATEMENTS

- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| 1. A fixed asset inventory was taken and several assets were included in the previous fiscal period that were not owned by the Authority. Also, a vehicle was not accounted for in the previous period. See related footnote (Note 2) for details on these assets: | <u>(463,474)</u> |
| Total prior period adjustments | <u><u>\$ (476,547)</u></u> |

REQUIRED
SUPPLEMENTARY
INFORMATION

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budget			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Township contributions	\$	\$	\$ 614,842	\$
Interest			3,444	
Charges for services			85,232	
Miscellaneous			<u>9,733</u>	
Total revenues	777,684	723,289	713,251	(10,038)
EXPENDITURES	<u>777,685</u>	<u>723,289</u>	<u>664,087</u>	<u>59,202</u>
Excess of revenues over (under) expenditures	(1)		49,164	49,164
OTHER FINANCING SOURCES (USES)				
Transfers out			<u>(37,684)</u>	<u>(37,684)</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	(1)		11,480	11,480
FUND BALANCE, JULY 1, 2004	305,610	305,610	305,610	
PRIOR PERIOD ADJUSTMENT			<u>(13,073)</u>	<u>(13,073)</u>
FUND BALANCE, JUNE 30, 2005	<u>\$ 305,609</u>	<u>\$ 305,610</u>	<u>\$ 304,017</u>	<u>\$ (1,593)</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

- A budget was not adopted for the Capital Replacement Fund. This is a special revenue fund and is required to have a budget under State of Michigan Public Act 493 of 2000.

SUPPLEMENTARY
INFORMATION

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES	<u>\$ 723,289</u>	<u>\$ 713,251</u>	<u>\$ (10,038)</u>
EXPENDITURES			
Personnel	359,286	351,661	7,625
Supplies	33,660	31,838	1,822
Contracted services	69,863	65,772	4,091
Operating expenditures	116,550	111,459	5,091
Capital outlay	99,832	47,727	52,105
Insurance	<u>44,098</u>	<u>55,630</u>	<u>(11,532)</u>
Total expenditures	<u>723,289</u>	<u>664,087</u>	<u>59,202</u>
Excess of revenues over (under) expenditures		49,164	49,164
OTHER FINANCING (USES)			
Transfers (out)	<u> </u>	<u>(37,684)</u>	<u>(37,684)</u>
Excess of revenues over (under) expenditures and other financing (uses)	<u> </u>	<u>11,480</u>	<u>11,480</u>
FUND BALANCE, JULY 1, 2004	305,610	305,610	
PRIOR PERIOD ADJUSTMENT	<u> </u>	<u>(13,073)</u>	<u>(13,073)</u>
FUND BALANCE, JULY 1, 2004 RESTATED	<u>305,610</u>	<u>292,537</u>	<u>(13,073)</u>
FUND BALANCE, JUNE 30, 2005	<u>\$ 305,610</u>	<u>\$ 304,017</u>	<u>\$ (1,593)</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Contribution - Holly Township	\$	\$ 307,421	\$
Contribution - Rose Township		307,421	
Cost recovery		5,485	
Medical run fees		78,022	
Inspection service		1,725	
Interest income		3,444	
Miscellaneous		<u>9,733</u>	
Total revenues	<u>\$ 723,289</u>	<u>\$ 713,251</u>	<u>\$ (10,038)</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
PERSONNEL			
Salaries	\$	\$ 322,059	\$
Payroll taxes		24,751	
Health insurance		2,684	
Pension		<u>2,167</u>	
Total personnel	<u>359,286</u>	<u>351,661</u>	<u>7,625</u>
SUPPLIES			
Non - operating supplies		7,694	
Operating supplies		4,778	
Uniforms		9,521	
Medical supplies		<u>9,845</u>	
Total supplies	<u>33,660</u>	<u>31,838</u>	<u>1,822</u>
CONTRACTED SERVICES			
Dispatching		12,825	
Auditing fees		3,770	
Legal fees		665	
Medical billing		9,652	
Intercept costs		6,975	
Education and training		13,424	
Dues and subscriptions		4,207	
Payroll services		4,231	
Construction labor		4,180	
Computer services		5,200	
Miscellaneous services		<u>643</u>	
Total contracted services	<u>69,863</u>	<u>65,772</u>	<u>4,091</u>
OPERATING EXPENDITURES			
Communications		20,141	
Transportation		8,651	
Printing and publishing		1,322	
Utilities		32,462	
Repair and maintenance - grounds maintenance		15,425	
Repair and maintenance - equipment		283	
Repair and maintenance - vehicles		28,870	
Lease - equipment		3,372	
Miscellaneous		<u>933</u>	
Total operating expenditures	<u>116,550</u>	<u>111,459</u>	<u>5,091</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
CAPITAL OUTLAY			
Small equipment		34,815	
Capital outlay		<u>12,912</u>	
Total capital outlay	<u>99,832</u>	<u>47,727</u>	<u>52,105</u>
INSURANCE			
General liability		40,390	
Worker compensation		10,821	
Firefighter protection		<u>4,419</u>	
Total insurance	<u>44,098</u>	<u>55,630</u>	<u>(11,532)</u>
Total expenditures	<u>\$ 723,289</u>	<u>\$ 664,087</u>	<u>\$ 59,202</u>

NORTH OAKLAND COUNTY
FIRE AUTHORITY

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED JUNE 30, 2005



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
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September 29, 2005

Board of Trustees
North Oakland County Fire Authority
P O Box 129
Holly, Michigan 48442

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of North Oakland County Fire Authority for the year ended June 30, 2005, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. Those matters are as follows:

1. COMMENT

We found several instances where sales tax was paid by the Authority.

RECOMMENDATION

The Fire Authority should not be paying sales tax. We suggest all invoices be reviewed thoroughly before paying.

2. COMMENT

While reviewing insurance we found a truck on the Authority's policy which was traded to another fire department.

RECOMMENDATION

It is important to periodically review all insurance policies due to their complexity.

3. COMMENT

While reviewing credit card purchases we found the following items:

- Charges were not broken out into separate accounts to properly record categories (often the payment was put to only one account);
- Original invoices were not attached to payments/statements from credit card companies;
- No approvals were given with signatures to pay;
- In one instance, the credit card statement was missing and payment was made the following month with no documentation attached.

RECOMMENDATION

Overall internal controls need to be increased regarding the use of credit cards.

4. COMMENT

Many invoices from vendors were found which did not have a signature approving the invoice.

RECOMMENDATION

Prior to any payments, an invoice should be reviewed and have a signature approving the invoice before payment.

5. COMMENT

We found one instance where a 1099 was not issued for services costing more the \$600.

RECOMMENDATION

According to Internal Revenue Service guidelines, Form 1099 must be issued to all individuals who were paid \$600 or more in a calendar year for providing services. We suggest the Authority request from all individuals (non-employees) who provide services, a social security number and address prior to payment. Form 1099 is not required to be issued to corporations.

6. COMMENT

We found several instances where deposits were not made timely (3-4 weeks after checks were received).

RECOMMENDATION

In order to safeguard assets these deposits need to be made more timely.

7. COMMENT

The invoicing system for cost recovery of fire runs does not use prenumbered invoices.

RECOMMENDATION

For better internal controls, we suggest prenumbered invoices be used.

8. COMMENT

Consistency of recording certain types of expenditures to the same account through-out the year was lacking.

RECOMMENDATION

In the future expenditure coding in the general ledger should be consistent. This would help to reduce the audit time and year-end adjusting journal entries.

9. COMMENT

We found a reimbursement paid to an employee for \$1,000. The reimbursement was made to supposedly cover fire department use on the employee's laptop. The \$1,000 should have been included in the employee's payroll as taxable compensation. Reimbursements to employees must be covered under an "accountable plan" as required by the Internal Revenue Service. The aforementioned reimbursement does not fall under accountable plan guidelines and is therefore taxable to the employee.

RECOMMENDATION

Since the payment took place in 2005, the Authority should include the reimbursement as taxable compensation (include on W-2) to the employee.

10. COMMENT

A budget was not adopted for the Capital Reserve Fund.

RECOMMENDATION

A budget should be adopted for the Capital Reserve Fund. It is a special revenue fund and is required by the State of Michigan to have an approved budget.

This letter does not affect our report dated September 29, 2005 on the financial statements of the North Oakland County Fire Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of the North Oakland County Fire Authority.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants